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SUBJECT: OIL MINISTER ON OIL LAW, CONTRACTS, BUDGET AND GAS

REF: STATE 46987

Classified By: CETI Ambassador Charles Ries, reasons 1.4b,d

¶1. (C) SUMMARY: Minister of Oil (MOO) Shahrستاني told EMIN on May 4 the GOI had not heard anything more from the Kurdish Regional Government (KRG) about continuing with negotiations to enact the hydrocarbon framework law (HCL). He is hopeful that he will sign a Technical Service Contract (TSC) this month with one or two international oil companies (IOC). He noted that MOO is a week away from completing its 5-10 year strategic plan, and continues meeting regularly with Ministry of Electricity (MOE) to coordinate the supply of fuel for electric generating plants. END SUMMARY

HYDROCARBON LAW

¶2. (C) Oil Minister Shahrستاني told EMIN on May 4 that PM Maliki had agreed with KRG PM Nechirvan Barzani to return to the February 2007 draft hydrocarbon framework law along with the field annexes that the MoO had prepared last year, and the parties had agreed to continue discussions over the other related laws that will be presented as part of the package, namely the laws to re-create the Iraq National Oil Company, to re-structure the Ministry of Oil, and the revenue management law. Barzani had indicated he wanted to re-open talks on the framework law, but Shahrستاني said he had warned Barzani against opening Pandora's box, and added that if the texts are re-opened, it would take ages to complete. Shahrستاني added he had sent three messages to the KRG asking about their return to the negotiating table, but had heard nothing yet. He reported that the Shura (advisory) Council had completed its review of the MOO re-organization law, and he had shared a copy with the KRG. He has not yet presented the MOO law to the Cabinet.

¶3. (C) Shahrستاني said the talks overall were not a really serious discussion, as he is not sure what points the KRG wants to amend. However, the atmosphere was positive - he had chatted with Barzani in Persian and people were making jokes - at least, he commented, until the KRG's Natural Resources Minister, Ashti Harami, resumed his typical confrontational style and began saying "we can't have this or can't do that."

¶4. (SBU) Shahrستاني confirmed that he had offered to send a survey team to the KRG to lay a connecting pipeline when informed DNO is ready to export its oil production, but he had been told that DNO is responsible to build the pipeline so a survey would not be needed. Barzani just this past week had relayed a message through Industry Minister Fawzi that in fact, DNO already has laid down a pipeline, so Shahrستاني has tasked the North Oil Company to see if the pipeline exists at the indicated terminal point, near Harbur Gate on the Turkish border. However, he has been informed that the quality of the oil is very low, which raises a technical problem because the Ministry is keen to keep its export quality high and at a market standard. Iraq had faced a

similar problem with the Ayn Zalah oilfield near Mosul, he said, and had decided against mixing production there with Kirkuk oil to avoid reducing the API of its exported oil, instead keeping it for domestic use.

TECHNICAL SERVICE CONTRACTS

¶5. (SBU) EMIN outlined reftel points regarding the payment terms of technical service contracts, and the Minister stated that he already has consulted with the IAMB and the Ministry of Finance (MoF) and everyone else with a stake, and everyone tells him they see no problems. Once the contracts are initialed, he will take them to the Council of Ministers for approval, and then they will be signed and implemented.

BUDGET EXECUTION and TSCs again

¶6. (C) Shahrستاني, when informed that the MoF had reported that 2007 MOO budget execution numbers are not yet available, said that was "ridiculous" because the previous week he had signed off on a paper for the MoF with the statistics showing a 60 percent execution rate, and he had spent a Saturday going over the figures with MoF officials. He added that he is getting quite frustrated with Congressional and media reports suggesting Iraq is hoarding its oil revenues, and added that he does not appreciate the Embassy sending out incorrect numbers either. Moreover, he said, even with the parliamentary delay in approving a 2008 budget, the Oil Ministry already has spent about USD 630 million, or 32 percent of its 2008 budget. The most likely scenario is that

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the MoO will run out of money for investment well before the end of the year. Shahrستاني is thinking of applying for funds in the anticipated midyear supplemental budget, but the TSCs were supposed to have addressed that issue, to get the IOCs to spend their money in Iraq.

¶7. (SBU) Returning to the TSCs, Shahrستاني said he had told the CEOs of the major oil companies in Rome they are taking too long to negotiate, and they had gotten the message. He expects he will sign one or two contracts this month, with the companies that are the furthest along. Afterward, the contracts would make no sense, given that the Ministry has already increased production on its own by a half million barrels per day so far this year, and is planning a larger "bid round" for TSC's for existing fields.

NATIONAL ENERGY STRATEGY

¶8. (SBU) Shahrستاني indicated he did not plan to attend the Ministerial for the International Compact with Iraq in Stockholm on May 29, although he noted that he had heard that PM Maliki would like to take him along, and in such a case of course he would go. Shahrستاني added that weekly meetings between MOO and the Ministry of Electricity continue and the two Ministries have agreed on how many new power plants will come on line this year and how they will be fueled. He said a joint plan had been finalized last week, and it would be presented to the Council of Ministers in another week, well in advance of the ICI Ministerial. The MOO also has developed its own 5-10 year strategic plan, and has decided that most of Iraq's gas will be exported, since supply far exceeds domestic demand.

¶9. (C) Shahrستاني said the question of fuel pricing policy was not in the Oil Ministry's strategic plan, because pricing is a question for the Cabinet to decide. In his opinion as a member of the Cabinet and not as Oil Minister, Iraq should not increase domestic fuel prices until unemployment rates are lowered. He cited a recent Ministry of Planning study, which had revealed that Iraqi families are spending on

average a quarter of their incomes on fuel, which far exceeds global averages. Iraq should adjust its electricity prices and other subsidies, he added, but not fuel prices. In any event, he noted that current fuel prices are not coming out of the national budget, since the Ministry is covering the price out of its operating revenue. Shahrستاني countered EMIN's point about a two-tiered pricing structure facilitating militia activity by declaring that increased fuel supplies have eliminated the black market and gas station queues (NOTE: His claim was belied by the impromptu jerry-can vendors we observed enroute to the Ministry END NOTE), and by arguing that it would be better to just tackle the militias directly as the Prime Minister was now doing.

NATURAL GAS FOR EXPORT

¶10. (SBU) EMIN inquired about MoO plans for its gas supplies, and Shahrستاني reiterated that gas from the Akkas field near Syria is destined to be offered for development in the "first bid round" (for TSA's) this summer, and would be sold through the Arab Pipeline to the EU. As he has before, he expressed confidence that field development of Akkas could produce 5 billion cubic meters of exportable gas within 2 to 3 years. Shahrستاني said that in Brussels he had invited EU Energy Minister Andris Piebalgs to Baghdad to sign an MOU, and that Piebalgs had agreed to come. Shahrستاني knows Turkey is eager to obtain gas, and so he is thinking of selling Turkey the excess gas from the Mansouriyah field north-east of Baghdad, to be routed through the corridor provided by the Bayji-Baghdad pipeline exclusion zone. That, however, will be a medium-term undertaking.

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